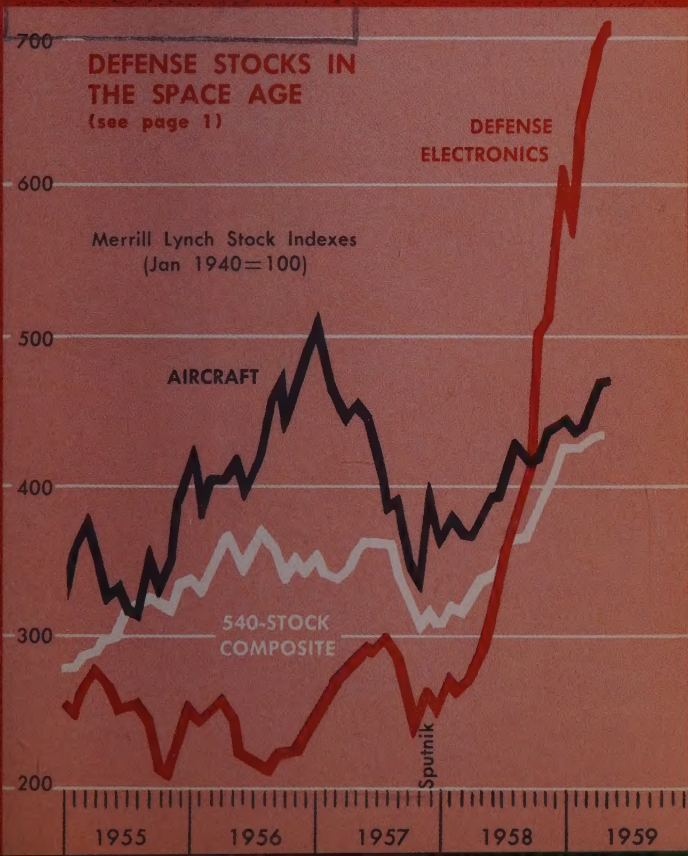
April 29, 1959

Investor's Reader

For a better understanding of business news



STARRING PLAYTEX

This slender sample of femininity is helping Stanley Warner Corp through some lean times for movie houses. The theater chain was spun off from Warner Brothers Pictures in 1953 and like others in the business it is aware of "the fluctuations of the motion picture industry"—to quote the company's annual report.

Hence five years ago Stanley Warner (ticker symbol: STW) acquired International Latex Corp, makers of well-advertised waterproof baby pants, bras and Playtex "living girdles." The purchase price was $14,930,000, financed by a bank loan.

This unusual merger has worked out very well since International Latex has shown one-way stretch in sales and earnings ever since. Last week STW vice president & treasurer W Stewart McDonald was firm in keeping Latex statistics a secret but he did note "merchandise sales contributed $63,500,000 [56%] of the parent's total volume of $113,300,000" in the year ended August 1958. While STW suffered an overall decline in sales (2%) and profits (38%), International Latex "showed a healthy increase in both."

The poor showing in fiscal '58 was mainly due to lower theater admissions. However it has proceeded to sell unprofitable theaters as part of a long range plan to tighten operations. Also in the program, subsidiary Stanley Warner Cinerama has reduced the number of its theaters from 20 to 16.

Having thus slithered into a more manageable foundation, STW fiscal '59 figures are snapping back into shape. In the six months ended February 28 profits were expected to approach the $1.15 earned in the whole 1958 fiscal year. On the Big Board the 2,028,000 common shares have also snapped back from a 1958 low of 14½ to a recent 22.

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Investor's Reader

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The New Look in Defense Securities

Missile and Space Stocks Intrigue Investors But Offer No Across-the-Board Guarantee

In mid-April the World Congress of Flight convened in Las Vegas. The subjects covered at the important, week-long conference ranged from the Jet Age to Missiles to the Space Age. Among the scores of distinguished speakers were Air Force General Curtis Le May, Federal Aviation Agency boss Elwood R Quesada, Advanced Research Projects Agency director Roy Johnson and noted scientist Dr Edward Teller. Another was Merrill Lynch Research Division specialist Arch Catapano. Here are excerpts from his talk.

PRIOR to the Korean conflict, the financial community looked upon defense industry stocks with caution. Generally, investors felt that the industry was a "boom or bust" business and that securities in this field were only attractive when the defense cycle was favorable. Thus, most commitments were made for temporary speculation rather than long term investment and frequently these stocks were colorless performers. However things have changed considerably—some of the defense stocks have been among the star performers in the booming stock market.

Until recently the securities of the aircraft producers were primarily regarded as defense stocks. In war or peace they did most of their business with the Government. But with the start of the Missile-Space Age, the term defense now embraces electronics and propellant producers as well.

As I said before, defense securities were never really regarded as

media for long term investment. However as a result of the Korean conflict some investors started to realize that both the Cold War and a large defense bill were here to stay. For the first time, investors felt that they could look at military shares on a long-term basis with some degree of confidence. This feeling was by no means widespread but the growing interest began to be reflected in the stock market.

During the Korean strife, the defense group kept pace with the rising level of the general market. Then in 1953, the group began a sensational move. This was due to two factors. One was the anticipation of the elimination of excess profits taxes which had an enormous impact on profits of these high volume military suppliers since most were paying the maximum 72% rate. The second was the expectation that industry operations would be maintained at relatively high levels even after the termination of hostilities in Korea.

Consequently, from mid-1953 to the end of 1956, the aircraft stocks were in a bull market of their own and outpaced the general market by more than 300%. Then suddenly the trend reversed itself. In early 1957 defense spending plans were cut back and later that year numerous programs were reduced or stretched out. The old cautious attitude about these equities reappeared and the group sold off rather sharply until October 4, 1957 when Russia successfully launched its first Sputnik.

Sputnik Stock Launching. This marked the beginning of another shift in investor sentiment toward military shares. The new Space Age has had a profound effect on stock market values of certain defense suppliers. However investors have made very significant distinctions between the various types of defense suppliers. Investors have primarily been interested in the companies involved in rockets, missiles and space vehicles and have generally ignored those involved mostly in manned aircraft programs, despite the fact that many of these companies are still enjoying high level sales and earnings.

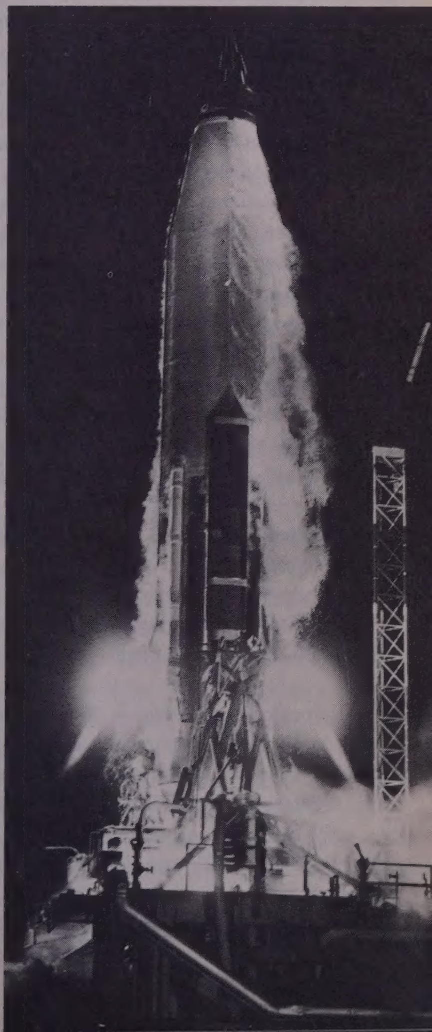
Basically, the market has decided that the major beneficiaries of the Missile-Space Age will be the electronics and propellant companies. Stock prices of these firms have soared. Since Sputnik the defense electronics group, as measured by the Merrill Lynch price index [see cover] has outpaced the general market by some 400% and has outperformed every other major group in the market.

Meanwhile, aircraft stocks have not gained as much from the surging investor interest in defense securities. As a group they have performed only slightly better than the general market. Despite repeated assurances by the military that the inception of the Missile Age does not eliminate

the need for manned aircraft, investors have chiefly emphasized those companies with strong positions in the missile field.

The investment community seems to feel that the very high cost and enormous destructive power of the latest aircraft models have eliminated the opportunity for long production runs, which were particularly profitable in their later stages of output * * * While it is true that aircraft producers have most of the prime contracts in the current missile programs, competition for "primes" from non-aircraft companies is increasing. Moreover, aircraft companies still face the transition period from planes to missiles and this could penalize earnings because of heavy research and development expenses, facility readjustments and so forth. Also, at the present stage of the large missiles, there appears to be little prospect of very big volume production, although some later models may be built in quantity.

Atlas soars toward outer space



Electronic Shift. To get back to stock prices, some people ask why the electronics group has received so much attention over the last year or so. One factor—subtle but nevertheless significant—is the belief that these companies represent one area not likely to feel the effects of any recession. For example, sales and earnings for many of these firms made new highs in 1958 in sharp contrast to the substantial declines registered by many other companies.

More important is that investors are anticipating substantial growth ahead. With the continuing shift from manned aircraft to missiles and the increasing emphasis on space vehicles, the electronics industry should continue to get a larger share

of the defense budget. Thus, dollar volume in the electronics industry should continue to grow and could easily double by 1965, even if we assume only moderate increases in overall defense spending. This is an impressive potential when compared with the expected overall growth of the economy and even compares favorably with such long established growth areas as the chemical and drug industries which are expected to expand by 10-to-15% annually.

Of course, certain fundamental distinctions must be made between growth in the defense industry and growth in civilian areas of the economy. Any defense endeavor inherently carries with it some degree of uncertainty because of the constant shifts in defense procurement, renegotiation problems and the like. In a sense there is something essentially speculative about this industry. But most people seem to go along with the notion that the Cold War will not thaw out over the foreseeable future and that defense outlays will remain high. Nonetheless there are some equally intelligent investors who feel there is always the possibility of a reconciliation between the East and the West. Thus, they are still apprehensive about making long-term commitments in an industry so closely tied to world political factors.

Commercial Count. While this viewpoint is well taken, it must be remembered that companies in the military field are gaining a tremendous amount of knowhow in electronics technology and some are building up impressive technical and scientific organizations. Moreover, electronics involves a great deal of research and development work and somewhere along the line these activities will result in ideas which have commercial applications. For example, radar which was developed during the war is now used extensively in non-military applications. And we certainly would not be traveling in commercial jets were it not for billions spent for military research. Those companies which think and plan in terms of possible commercial adaptation—regardless of how nebulous or premature their plans may now appear—will be the most successful over the longer term.

Anticipation has become the decided keynote in defense stock prices, particularly in the electronics and propellant shares. While it is true that earnings in many cases are already in an uptrend, the share evaluations have accelerated much more rapidly than profits. For example prices of the electronics group which sold at 15 times earnings before Sputnik, recently rose to 25 times. Among individual issues, the multiplier has increased even more sharply.

Growth and Responsibility. It is quite an advantage for a growth

STOCKS IN MERRILL LYNCH INDUSTRY INDICES

11 Aircraft Manufacturers		6 Defense Electronics
Boeing Airplane	Lockheed Aircraft	Avco Corp
Curtiss-Wright	Martin Company	Collins Radio
Douglas Aircraft	McDonnell Aircraft	Hazeltine Corp
General Dynamics	North American	Litton Industries
Grumman Aircraft	Republic Aviation	Raytheon
United Aircraft		Varian Associates

industry to be recognized as such in the market place. Relatively high prices facilitate financing, make acquisitions feasible, keep stockholders content, discourage raiders, solidify management reins and help in recruitment. At the same time, such recognition also brings with it certain responsibilities.

Many companies in this field will fulfill the hopes of today's investors. But the optimistic evaluations have been applied almost across the board —to small and large companies alike, to firms with broad and narrow product lines, to established operations and to untried enterprises, to companies with proven as well as untested managements, and finally to companies with large sophisticated research activities and to those which do hardly any research at all. In fact in some cases, the only real tie to the electronics industry is the word "electronics" in the corporate title.

In the future, maintenance of stock market prices will depend upon performance and fulfilling the promise * * * It seems unlikely that all companies will manage to do this. Competition in this field is becoming intense and it will become even more so. Aircraft companies are expanding their electronics activities and even firms which previously did defense work only for patriotic reasons are now getting into the business.

Shakeout and Selection. We will undoubtedly witness a shakeout over the next decade as weaker companies either disappear or become absorbed by the stronger ones. The result will be greater industry concentration with the emergence of several large industry leaders. This has been the typical pattern of evolution for all new industries in American history. There is a qualification—since the industry is probably more dependent upon ideas and the human equation than any other industry in our history, the degree of concentration will perhaps be less than has been witnessed in most industries. This means continued opportunity for small but soundly-based enterprises.

How does one go about making stock selections to participate in the

growth of this field? This is difficult, particularly among electronics companies, because by nature the industry is not homogeneous. For example, two companies can be classified as electronics firms without making the same products and without competing with one another. Compare this if you will with the steel or machine tool industries, where the economic factors which affect one company virtually affect all others in the industry to the same degree.

It is essential that the investment approach be extremely selective and that a stock be purchased not only on the basis of general industry trends but on the clear appreciation of the individual company. Among other things the following are some of the factors which guide Merrill Lynch in stock selections. We prefer to see:

- A rising trend of sales.
- Profit margins which are constant or rising. However, margins should not be unduly high because of possible repercussions of renegotiation.
- The product line should be diversified and represent growth segments of the industry.
- The company should have technical competence and give indications that it can do better than competitors.
- Annual research and development expenditures in relation to sales should be substantial. We prefer to see a situation where at least a good portion of these outlays are company-sponsored because of the greater proprietary interest it derives from such activities. Large Government-sponsored R & D programs can be extremely important as well.
- The company should have adequate financial resources and there should be no immediate plans for common stock financing which would result in any serious dilution of stockholder interest.
- Management should have business experience and be expansion-minded. This is most important in the dynamic electronics industry for it is certainly true that companies never stand still. They either go forward or they lose ground rapidly.

We feel that those companies which can fit the bill on all or most of these counts are most likely to succeed. As the industry grows and competition increases, capital requirements will expand. More funds will be needed for plant and equipment and research development. Managements will be required to cope with financial problems as well as technical and scientific ones. They will also have to find and develop commercial markets for their new technology. Only those companies which can meet these challenges will retain the confidence of the investment community. But for those that do, the rewards will be indeed unlimited.

WALL STREET
Transfer Turnover

IN ONE MORE testimonial to the current busy, dizzy pace of Wall Street activity, the Chase Manhattan—the nation's No 2 bank and No 1 stock transfer agent—last week announced its stock transfer department was processing an average of some 18-to-20,000 items a day, a 70% increase since last September.

To handle the increased business of transfers, subscriptions, stock dividends and splits, the bank had to boost the department's work force to 100 from 70 last Fall. Even though Chase is not involved in the titanic AT&T split (1,600,000-stockholder Telephone is its own agent) just stock splits alone will give Chase some 400,000 transactions between now and the end of May.

RETAIL TRADE
National Tea Party

LIKE MOST of its colleagues, No 5 US food chain National Tea Company brews a tasty cup. Last fortnight president Harley V McNamara told Manhattan's Security Analysts he expected National's profit cup to run over with an additional half dollar to bring 1959 net to a record $4.50-to-4.60 a share. At the same time he estimated an additional sales increase of 7% to $850,000,000. For the twelve weeks ended March 22 however National profits fell to $1,755,000 or 26¢ a share from $1,939,000 (30¢) the year before.

President McNamara explains: "If I had to pinpoint the one thing most important in the growth of our organization I would unhesitatingly say decentralization. We have found it the best method of meeting competition at local levels."

It almost has to be. National operates 932 stores in 18 states from the Canadian border to the Gulf of Mexico and from Colorado east to Ohio. Last year it opened a record 95 new stores while it closed 74 smaller, less profitable units. For this year and early 1960 it plans to open 112 stores of which about 26 would replace existing small stores.

In addition to internal growth, National has expanded heavily through external acquisitions. In the last year alone it added no fewer than four independent chains to its burgeoning operations. In January of last year the food giant bought seven Peoria, Ill markets formerly operated by the Illinois Valley Store Company. Two months later National purchased Del Farm Food Stores of Chicago, operator of twelve food stores and a Pick 'n Save supermarket. In April the three store chain of Food Bank Supermarkets of Colorado Springs and in September four Kalamazoo Market Basket stores were added.

The trouble shooting Federal Trade Commission, in an investigation of the food chain industry, last month slapped a monopoly charge on National (fellow chainer Kroger Company received a like complaint this month). The FTC claims National's avid acquisition policy (13

corporations and their 440 stores in the last seven years) violates the Clayton Antitrust Act. Retailer McNamara remarked: "We don't know of any merger law we violated. We know of no law preventing a company from expansion by acquisition into a new geographical area." Furthermore National "has a few deals on the fire which any day now might be ready to serve our acquisitional aspirations."

His attitude reflects the sentiment of many food chains that the Government charges may be hard to prove. For one thing food chains are notoriously one of the most competitive of all industries. The National charges may be even harder to prosecute since the company is controlled outside the US. Canada's Loblaw Companies Ltd (which in turn is controlled by George Weston Ltd) holds one third of the 6,560,000 common shares now outstanding.

Even so investors have evinced some caution. The Big Board-listed stock now trades around 23, down two points from its high earlier this year. The stock was split 3-for-1 in March and "the dividend on the common for the second quarter of 1959 will probably be increased 20% to 20¢ on each of the new shares."

Looking ahead president McNamara states "barring reverses in the economy our billion dollar sales goal will be in sight by 1960. We are looking forward to a continual growth in frozen foods. We believe the biggest spurt will come from convenience food items, such as prepared dinners and gourmet food specialties."

RADIO

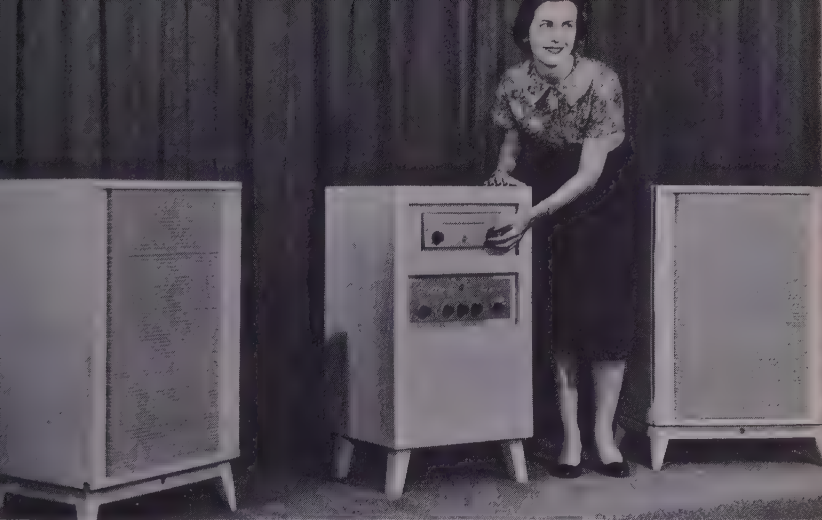
Broadcasters Hope To Get Into Act Of Stereo Boom

THE BOOMING stereo business sooner or later may get a new sound—and perhaps a lift to new heights. Right now the radio and TV broadcasters try hard to find ways to put stereo over the airwaves. If successful, this would be a broadcasting coup. Their interest is keen because of the sudden rise of stereo records, tape and home equipment (IR, Aug 6, 1958).

In essence stereo is two coordinated sound tracks designed to make the listener feel he is on the spot. Already several electrical equipment companies have developed methods of broadcasting & receiving stereophonic sound. The effect is achieved by broadcasting two signals and receiving them on two home speakers strategically placed for the proper effect. The principle has been tested, usually through a combination of bands (AM + FM, AM + TV).

Bell Telephone Laboratories (a subsidiary of AT&T) has developed a technically workable system of dual channels but in most cases it would double the broadcaster's costs. For this reason a method of transmitting two signals over a single channel appears more commercially feasible. This is called multiplexing and is the goal of most researchers.

Unlike stereo at home, stereo radio and TV cannot go on the air at will. As public media they are under Federal Communications Commission jurisdiction and must await ap-



New RCA stereo model

proval. To speed the new technique the Electronic Industries Association has set up a national committee to study all methods. The committee is composed of "any qualified engineer who wants to serve" and will weigh "big and little ideas from big and little companies and individuals, considering technical merits only." Then the committee will make recommendations to the FCC. So far 17 techniques have been submitted to chairman Graydon Lloyd of General Electric (strangely enough GE has yet to announce its stereo intentions).

Ride on the Side. RCA and Westinghouse have methods of broadcasting separate signals on the sidebands of the AM channel. Because the sound is on a single band, it can be received on a conventional radio without distortion as well as on a stereo receiver or an existing radio with stereo adapter. Both companies have a special receiver to unscramble the signals. Listeners also need a speaker but phono fans who already have speakers and amplifiers can hook them to their new receiver. Also an unequipped listener can receive the stereo effect by tuning two AM radios to the same channel, one a few kilocycles above center, the other a bit below.

Dr George H Brown, chief engineer of the Industrial Electronic Products division at RCA's David Sarnoff Research Center in Princeton is a proud papa: "I'm so happy about our system, everything just fell into place. It's a nice simple thing for the broadcaster involving very little expense. If the FCC adopted standards tomorrow, we could have an acceptable receiver but of course in six months we'll have a better one."

Affiliate station WRCA in New York has been granted an experimental license for broadcasting between 1 and 6 a m. Station manager

Arthur Hamilton reports "if the broadcasting experiments prove practical we'll be right there." Actually highbrow *New York Times* station WQXR has been stereocasting for six years through a combination of AM and FM (no extra license needed). It claims "terrific response."

Hear on the Road. The new achievement is significant because the AM band has been generally thought less adaptable than the wider FM (which is also TV's sound band). Marketing possibilities are greater in AM because its larger audience includes car listeners and the receiver should cost little more than a conventional radio.

Also playing with the big sound are Big Board listed companies Motorola, Zenith, Electric & Musical Industries Ltd and Philco which this February announced an inexpensive broadcasting system for FM & TV based on multiplexing which would require "no new TV or radio frequencies or revision of existing frequency assignments." Among the smaller private companies are Crosby Labs of Long Island; Calbest Electronics of Los Angeles; Harkins Radio of Phoenix and Multiplex Development of New York.

According to Graydon Lloyd, the committee "should be able to recommend a standard method to the FCC by year end." How enthusiastic the public will be towards stereo broadcasting is naturally a big factor in calculating production. There are some conservative voices on the air. Stereo listening demands a certain concentration and casual listeners might be disinterested or even worse find it distracting.

If and when the "go ahead" is flashed by the FCC over 4,000 TV & radio stations could be in the market for equipment but if the public shrugs it would hardly be worth the extra expense.

Stereocasting's future is occasionally compared to color TV or FM radio. When the FCC approved a compatible color system over five years ago manufacturers predicted 2,500,000 color sets by 1956. Today's estimate: less than 500,000 sets.

With the advent of FM broadcasting 15 years ago the bandwagon was full and loud with predictions "the public will want more than 25,000,000 combination FM-AM sets as soon as possible." Today's best guess is half that many homes have them.

Perhaps in consequence, some big broadcasters turn a deaf ear to stereo. John V B Sullivan, vice president & sales manager of leading New York independent WNEW, believes "stereo doesn't offer anywhere near the plus of FM. I cannot see it as a major factor in mass broadcasting because it is something most people are going to be able to live without." He feels it would involve too much effort for a public which "today listens to radio stations rather than programs," is more interested in content than sound.

But Philco research director Donald G Fink looks on the bright side: "The public is ready for this broadcasting service * * * it will be a shot in the arm all across."

MANUFACTURING
Singer Stitches Hold

TWO WEEKS AGO the Singer Manufacturing Company announced a new move to sew up the hole which foreign imports have ripped in its domestic markets. In the lush Palm Court of New York's Hotel Roosevelt, Singer unveiled an expanded line of its Slant-O-Matic and straight stitch sewing machines which will be competitive in price with lower cost Italian Necchi, German Pfaff and Japanese models. This switch is needed to more firmly stitch Singer's century-old sewing machine leadership which has been under siege by European and Japanese manufacturers since War II.

Lowest priced model ($69.50) in the new Singer line is the Spartan, a straight stitch economy machine which will be produced by the company's subsidiary in Clydebank, Scotland. The Spartan is destined to fill part of the market now taken up by Japanese imports. Three other types of machines retailing from $90 to $339 are all priced to compete with their European counterparts.

The last three machines will be turned out in a new semi-automatic manufacturing plant at Elizabethport, NJ. The facility which will be in full operation this year is expected to effect a 20% labor saving. The plant is one of the primary results of an expansive modernization program which Singer inaugurated last year and expects "will show results in 1959."

The modernization program also calls for stitching diversification threads in Singer operations. First step was the formation of 70%-owned Thurso Pulp & Paper Company (30% owned by Perkins-Goodwin Company) in 1956. Thurso began operation of a bleached sulphate pulp mill in March of last year. Next Singer set up a Military Products division, a venture which offers the "widest area for expansion." The new organization includes the Bridgeport division which produces precision machine parts; subsidiary Diehl Manufacturing, an established maker of electric motors and electronic components; recent acquisition (from Topp Industries —IR, January 7) Haller, Raymond & Brown, a research organization which specializes in electronic and infra-red research.


Singer's Start-O-Matic

Although the moderization program should produce better turned 1959 figures, along with the recession it was the cause of somewhat tat-

tered 1958 results. While sales increased less than 1% to $361,900,000 and remained slightly below the 1956 record of $363,000,000, earnings dropped 40% to $10,800,000 or $2.41 a share. But with the improved competitive position and more modern outlook, Singer hopes it will soon again sew up earnings near the $4.25 level of 1956.

BUILDING MATERIALS
Warner Debut

AT THE START of this month, Vulcan Materials president Charles Ireland could boast: "We are the only aggregates company listed on the New York Stock Exchange" (IR, April 15). But no more. The 1,130,000 shares of Philadelphia-based sand, gravel and cement supplier Warner Company made their Big Board bow during April. The newly-arrived stock was awarded the truculent ticker symbol WAR to fend off confusion with other similarly-named Big Boarders like Warner Bros Pictures (WB), Warner-Lambert Pharmaceutical (WLA) and STW for theater and girdle combine Stanley Warner (see inside front cover), not to mention machine tooler Warner & Swasey which is still an over-the-counter trader.

Warner Company is the largest producer and distributor of construction commodities in Eastern Pennsylvania. Although building supplies account for about 75% of sales, the 30-year-old company is also one of the larger suppliers of lime and lime products which it sells to customers in the metallurgical, chemical and agricultural fields as well as to construction outfits.

Building supplier Warner has a firm foundation for its operations. Sand & gravel reserves estimated at 120,000,000 tons are enough to last "in excess of 40 years." They are handily located on the Delaware River near Morrisville, about 25 miles from Philadelphia and in the midst of the company's main marketing area. Limestone quarries some miles away are figured to be good for "over 45 years." They supply both an adjoining facility and a Bellefonte, Pa lime products plant. A slag and a bituminous concrete "blacktop" plant at Morrisville are next door to a substantial slag source, Big Steel's Fairless Works.

Transportation-wise Warner is also on solid ground. Raw materials are easily floated along the Delaware aboard a company fleet of 78 barges while concrete from ten Delaware Valley plants is delivered to customers on 252 mixer-body trucks.

Although the listing statement reports "in recent years the general nature of the company's business has not changed," it does highlight some new additions to the product mix. In 1957 Warner picked up Lehigh Materials of Tamaqua, Pa to add "Lelite," an aggregate made from anthracite shale which is used for lightweight structural concrete and concrete blocks. In 1958-59 it acquired all the stock of Atlantic Prestressed Concrete of Trenton, manufacturer of prestressed and precast concrete products for bridges and buildings.

Like many other building suppliers, the new Big Board listee last year suffered from the construction slack which hit both its "general business" and its new products. Sales eased half a million to $23,400,000 while net income declined to $1,510,000 ($1.40 a share) from $1,710,000 or $1.59 (adjusted for a 2-for-1 split in December). Much of the drop can be blamed on "unusually severe weather conditions in the first quarter" of 1958. While first half sales trailed 1957 by 13%, second period volume was 8% above the year before.

As for this year, president Joseph Curtin notes: "While recovery from the low sales level of last Spring and early Summer has been slower than anticipated, all signs point to a healthy increase in the current year. Chemical lime and stone sales show an upward trend following the general increase in industrial activity with special emphasis on the upturn in steel.

"A moderate increase in construction is already apparent for the Delaware Valley region and the company is well prepared to take advantage of these opportunities. The prospects for a more profitable year in 1959 look promising."

OIL
Cities Service Reports

WHILE 1959 marks the centennial of Colonel Edwin L Drake's oil strike at Titusville and the birth of the American petroleum industry, most oil companies entered the jubilee year with none too jubilant financial faces. No exception was Cities Service Company. While the oil & gas giant was able to report membership in the billion dollar club for the second year in a row, profits slipped from the 1957 showing not to mention the Suez-stimulated high scored in 1956.

Specifically, 1958 consolidated revenues totaled $1.015 billion, down a mere 3% from the year before; net income, however, came to only $44,900,000 or $4.18 a share *v* $59,200,000 ($5.63) in 1957 and the record $6.03 a share of 1956. Cities Service chairman W Alton Jones blamed "the continued effect of the industry's overproduction in 1957, the impact of a general business recession during most of the year and excessive imports of petroleum products, chiefly of unfinished gasoline, which is directly competitive with domestic gasoline."

But the 1958 news was by no means all blue. Cities Service which has spent more than $1 billion over the past decade to upgrade and expand its facilities noted "during 1958 more new plants and facilities were completed and placed in operation than in any other year since the company was founded." To name a few:

- In November a 20,000-barrel a day refinery at Toronto began operation a full four months ahead of schedule. The company noted 1958 sales in Ontario and Quebec were 24% ahead of last year and "demands are increasing." Crude requirements for the new refinery are expected to be met "in the foreseeable future" entirely by production in Northwestern Canada where Cities

Service has interests in 13 gas and 150 oil wells.

• A new 400,000-ton a year high quality asphalt refinery at Linden, NJ came on stream in July. It will produce many types of asphalt for the "construction, packaging and other fields, including the building of new highways and airfields."

• Subsidiary Petroleum Chemicals Inc (jointly owned with Continental Oil) completed an entire petro-chemical plant complex at Lake Charles, La. This includes a 100,000-ton a year anhydrous ammonia plant, a 100,000-ton a year ethylene plant and an 8,000,000-gallon a year ethylene oxidation plant which can produce either ethylene glycol (an antifreeze compound) or ethylene oxide (used in the manufacture of detergents, resins, synthetic fibers, etc). A butadiene (basic ingredient of synthetic rubber) plant was already in operation at Lake Charles.

Natural gas in West Texas

Cities Service has extensive foreign interests. It holds exploration rights on about 18,000,000 acres in the French Sahara, Italy, southern Arabia, Venezuela, Colombia and Peru and is actively drilling in each country. But its main reserves are domestic. For one thing, it is one of the major developers of offshore oil in the Gulf of Mexico. Hence the company should fare well under the boost given domestic producers by the mandatory import curb program which went into effect last month.

Meantime Cities Service has yet to clear up the much publicized Arkansas Fuel dispute. Still pegged a "public utility holding company" by the SEC, Cities Service was ordered three years ago either to divest itself of its 51½% interest in subsidiary Arkansas Fuel Oil or eliminate the public minority interest. The company has submitted a number of proposals to the SEC, one of which was a Solomon-like proposition to split Arkfuel down the middle into two operating corporations: one a wholly owned subsidiary, the other an independent. Latest proposition is to exchange one share of CS common for 2.4 shares of Arkansas Fuel Oil common. This has been violently opposed by some Arkfuel minority holders. Hearings only began last month so any Commission decision is presumably a long way off.

NATURAL GAS
Texas Gas Transmits

THOUGH IT WAS only a small meeting with 15 holders present, the Texas Gas Transmission Corp annual conclave last week was remarkable for an exchange of sweetness & light between small stockholders and president William M Elmer. Actually there was much for the stockholders to rejoice.

The company's stock had just the day before been listed on the New York Stock Exchange (the Midwest and Pacific Coast Exchanges as well). As the day's trading opened "TXG" ticked its first sale at 35¼—only three points from the alltime high scored over-the-counter earlier this year and more than double last year's low. Shareholders could also smile about the company's recent boost in the quarterly dividend to 30¢ each quarter, a nickel more than the rate paid since March, 1952.

Net income also increased in 1958 to $6,874,000 or $2.06 a share from $1.83 the year before. However the latter figure had been pared from the $2.02 a share originally reported for 1957. Reason: refunds stemming from the settlement of rate cases before the FPC.

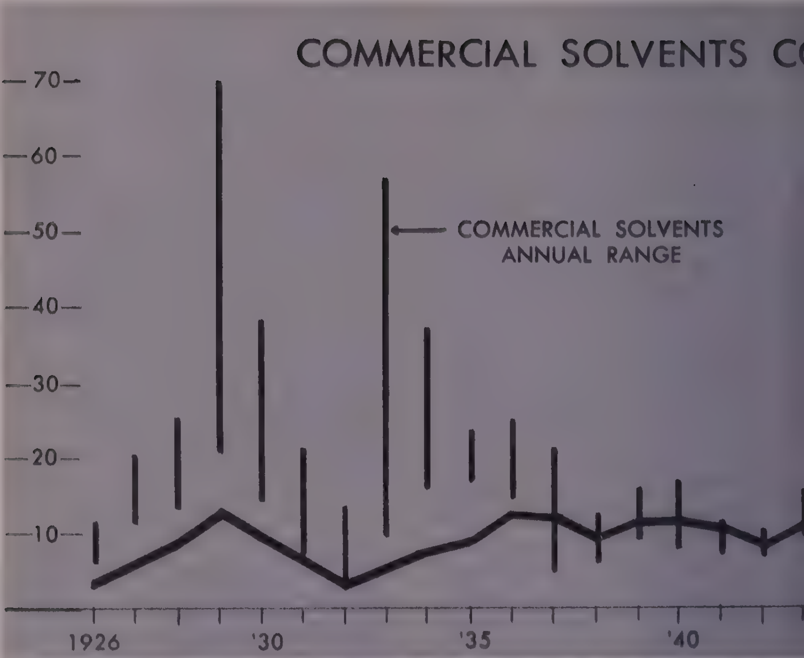
For the first quarter University of Illinois-trained Elmer told his audience earnings should be "substantially the same as" the 60¢ a share netted in the first quarter of 1958. He also expected full year earnings to be about the same as 1958. As for the years to come president Elmer was "real optimistic."

Right now the company is absorbing an increase in the price of gas charged by its suppliers. But TXG hopes soon to pass this on to customers. It goes before the FPC tomorrow to ask for a rate increase of around $5,500,000 to take effect November 1.

When formalities closed rugged and tanned president Elmer told reporters attending the session held in a lower Manhattan bank conference room: "The important thing about a company such as ours is to watch the earnings trend over a period of years. In the year of a rate case earnings may be slowed but the year after they pick up."

Meantime $195,000,000-assets Texas Gas which pipes its products from fields in East Texas and Louisiana up to Middletown, Ohio is in the midst of a $20,000,000 expansion program, has a still more ambitious $40,000,000 expansion plan before the FPC. The former, for which it borrowed $17,000,000 from institutional investors (the rest will come out of earnings), will enable TXG to increase its delivery capacity by 113,000 mcf a day.

Prexy Elmer hopes to get an FPC decision on the $40,000,000 plan around the first of July. If OKayed it will allow Texas Gas to pipe 100,000 mcf of gas a day from South Louisiana to a point near Lebanon, Ohio for delivery to Hope Natural Gas, a subsidiary of Consolidated Natural Gas. Hope serves customers throughout Eastern Ohio and Western Pennsylvania and parts of New York. If all goes well the new plan will boost TXG daily capacity to a hefty 1,482,000 mcf for a 90% increase in the past seven years.



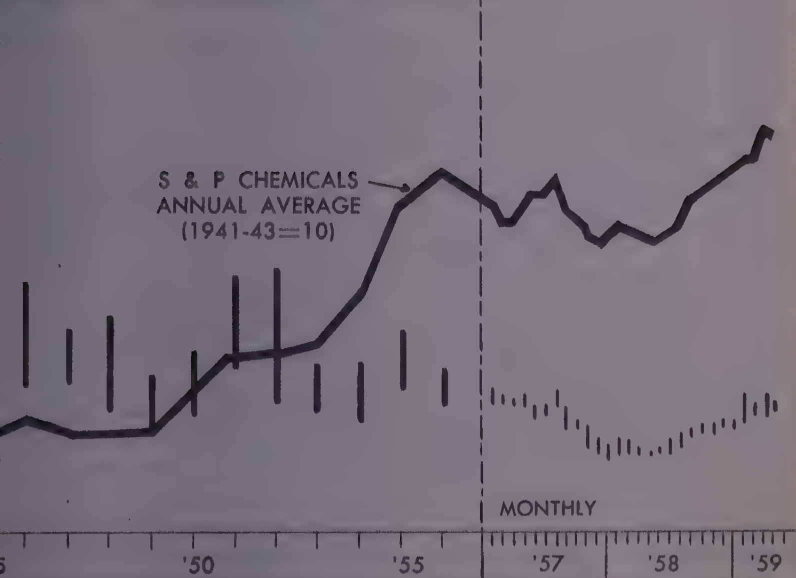
Slow Sales and Meager Profits Greet Newly Installed Boss

WHILE the 1958 financial fare dished out by most chemical companies was not so tasty as that of 1957, investors have long since discounted the poor showing in anticipation of a far healthier 1959. The chart shows Standard & Poor's chemical index has already surpassed the peak reached in 1956 and is pushing toward new highs. In fact, save for a bit of Depression droop and the temporary setback in the recent recession, S&P's chemicals have shown a pretty consistent upsurge—particularly postwar.

One chemical stock which has failed to ride along with this trend is Commercial Solvents Corp (Big Board ticker symbol: CV). As also shown by the chart CV hit the downhill trail from its once lofty high of 70 (adjusted) back in 1929 so today it is worth less than one-quarter of the pre-Depression investment.

Reasons for this sad stock showing are not hard to find—especially in the last few years. In the past decade sales have risen only 43% to last year's $64,700,000, roughly half the rate of gain for the industry as a whole. The profit picture is even drearier. Between 1948, the company's second best year when it earned $2.10 a share and 1958, net income dropped 74% while profits for the chemical industry more than doubled. The company's peak year

TERS THE CHEMICAL TREND



was Korea-stirred 1951 with profits of \$5,840,000 (\$2.22); last year, the postwar low with \$1,420,000 (52¢).

Dividends have dipped too. The \$1.50 rate paid in 1948-49 was sliced to \$1.25 in 1950, cut by another quarter in 1952. In 1957 the company paid 92½¢, last year only 27½¢. Now it disburses 5¢ quarterly. Even so, the company has paid out almost 100% of earnings in the past five years compared to a traditionally low payout ratio for most chemical companies.

One discontented stockholder with enough holdings to do something about it was Wall Street financier and CV director (since 1953) Jeremiah Milbank Jr who with his family reportedly holds 26% of the common stock. Last January director Milbank and investment banker Paul Shields served notice to president J Albert Woods and the board that they and other major stockholders, to quote the eloquent phrasing of the proxy statement, "desired a change in management at the executive level and were prepared to engage in a proxy contest to effect such change." With almost four years to go on his current contract, Al Woods chose to resign. Fertilizer expert Woods had come to Commercial Solvent as president in 1950 after heading Jacksonville's Wilson & Toomer Fertilizer. He will run out his contract in a consulting capacity at \$50,000 a year (last year's pay as president: \$75,000). Three other

members of the 15-man board also bowed out.

Senior vice president Maynard C Wheeler was named acting president and granted the full title early this month after the annual meeting at which four new Milbank directors were voted in.

While details of the bitter differences are still a tight company secret and probably always will be, it is known the trouble (reportedly brewing for at least a year and a half) was deepseated and manysided. Part of CV's recent showing can be traced to: 1) the recession which first hit the chemical industry in late 1957 and 2) heavy startup costs on four new plants, part of a multi-million dollar expansion plan aimed at sprucing up the ailing company.

Unfertilized. But the basic fact is in recent years (both good and bad) none of the Commercial Solvents lines were particularly profitable. One of the poorest has been its investment in Northwest Nitro-Chemicals Ltd. In 1955, based on a survey by engineers Ford, Bacon & Davis, CV, through Northwest, went into fertilizer production in Canada to get in on a predicted boom in the Canadian market. CV holds 53% of the common stock, 83% of the preferred and $1,000,000 in income debentures of the Alberta firm.

Since that time fertilizer demand in the Prairie Provinces has nosedived while CV's overseas markets (Korea, the Philippines) have practically evaporated. In order to sell the stuff Commercial Solvents has had to ship it to the US where it has had to absorb the extra freight charges to stay competitive with domestic fertilizer. Northwest has been losing about $1,500,000 a year and president Wheeler concedes: "I don't think we'll possibly break even in the next two-to-three years." CV has been writing off its investment at a rate of about 25¢ a share a year.

CV's antifreeze operations have also chilled. With the shift from methanol to permanent-type ethylene glycol as the basic ingredient for antifreeze, Commercial Solvents found itself in an outside lane. It is one of the major producers of methanol but must buy the ethylene glycol, the raw ingredient for its permanent antifreeze line. Thus Commercial Solvents runs a poor second profitwise to integrated producers. In recent years it has eyed a number of joint venture propositions for ethylene production (most recently with Columbia Gas) but "while it would help us to become integrated" all plans so far have been dropped as too expensive. Independent production "is out of the question since current industry capacity is already way ahead of demand."

Unintegrated. Another bone of contention may have been Commercial Solvents slowness to integrate. Until a few years ago the company had very few facilities to upgrade its basic products into higher profit specialties. This was particularly true of methanol, the basic chemical which accounts for the bulk of CV's industrial chemical sales. Among the most profitable methanol derivatives are methylamines for synthetic textiles, rubber accelerators and other industrial uses. CV had only a small

Terre Haute plant for methylamine production but last October announced it had doubled methylamine capacity at the plant by modifying its process.

Most notable effort to add to CV's product lines: the nitroparaffins, a petroleum or natural gas derivative, which the company began producing on a larger scale in 1955 after 20 years of research. Like methylamines, they are used in such areas as synthetic textiles and rubber accelerators. But president Wheeler notes: "While the outlook for nitroparaffins is one of considerable growth and development, they are taking longer than we expected to make a satisfactory contribution to sales and profits."

Just what policy changes the revised Commercial Solvents board will suggest are yet unknown. Maynard Wheeler does admit: "We expect to upgrade and broaden the application of our principal products, primarily nitrogen, methanol, nitroparaffins and their derivatives." Whether this will restore some of the bloom remains to be seen.

For the near future president Wheeler maintains: "Business is better this year. For the first quarter he estimates profits up slightly "to 18-to-20¢ a share from the 13¢ a share last year. We expect a continuation of good business at least for the next six months." As for the last half of the year: "There is so much in the wind—rubber and steel strikes, Berlin, etc—it is hard to say how our business will be affected." But the big question for CV is the effectiveness of the new management group's longer range plans.

We hear from . . .

Apparel Anchor

NEW YORK CITY

GENTLEMEN:

I thought your article about the retail business in the March 4 issue covered the field very well * * * Just one point about it seems to me to be in error. You mention that department store prices have risen 7% in the last decade. I believe this figure applies to apparel and not to the entire range of department store merchandise.

Very truly yours,
RAPHAEL MALSIN, *President*
Lane Bryant, Inc.

As expert apparel salesman Malsin rightly indicates, clothing prices are one of the items which have risen least in the past painful decade of the HCL.—*Ed.*

Eastern Quartered

LONDON

GENTLEMEN:

One of your vaunted IBM machines must have slipped a transistor when it collated the data for Eastern Industries in the price-earnings story in your issue of April 15 last.

You show it as earning 3¢ a share in 1958 against 25¢ the year before. Unless I misread the papers, these figures cover only the three months ended December, the first quarter in the company's fiscal year. Earnings for the fiscal year ended September 30, 1958 were 73¢ a share *v* $1.04 in the preceding year. This, I venture, makes quite a difference in the company's price-earnings ratio.

Very truly yours,
ANN WILSON

The IBM is guiltless; the statistics-saturated IR writer's eyes misread the quarterly for the full-year figures. Using the 73¢ fiscal year results our Friden calculator comes up with a price-earnings ratio of 28. —*Ed.*

Springtime Bounce in Corporate Profits

Swift Recovery Topples Records for Many Firms But Some Companies Lag

THE FIRST returns on first quarter earnings sound remarkably jaunty. Whether formal financial reports or just over-the-lectern estimates at annual meetings, the overwhelming majority of the statements firmly documents the sharp recovery since early last year.

To pick but a few samples: Western Union netted 55¢ a share for the quarter *v* 32¢ a year ago; auto equipper Eaton Manufacturing raced earnings up to $1.80 *v* $1.04; Electric Storage Battery results were "materially better"; Celanese Corp recovered to 64¢ from 23¢; St Regis Paper improved to 64¢ from 42¢ in the first quarter of 1958.

Granite City Steel chairman Nicholas Veeder reported $1.62 a share, "69% better than the same quarter last year and slightly more than the best quarter of either 1957 or 1958." Johns-Manville more than doubled its earnings to 56¢ compared to 27¢ a year ago (adjusted to include recently purchased LOF Glass Fibers). United Air Lines, Admiral Corp, Pittsburgh Steel and Reed Roller Bit are just a few firms which turned 1958 first quarter losses into 1959 profits.

Solid year-to-year gains were of course to be expected since the first quarter of 1958 marked the low point in the recession. But many results also compare favorably with 1957. Dozens of companies in fields as diverse as chemicals, steel and cigarets report "the best quarter ever" in sales and frequently also in profits. A few examples:

Allied Chemical sales rose to a record $169,000,000 (up 14%) while earnings catapulted to $1.15 a share from 68¢ a year ago and $1.01 in the first three months of 1957. Union Bag-Camp Paper also enjoyed its largest first quarter business in history as income recovered to 66¢ a share from 46¢ in 1958 and 64¢ the year before. Steelmaker Jones & Laughlin came up with record first quarter net as it made a smashing recovery to $1.97 a share from last year's meager 17¢. Scott Paper (73¢ *v* 66¢) and Revlon (91¢ *v* 84¢) also set alltime highs. P Lorillard chairman Lewis Gruber announced net income increased to a peak $6,156,000 ($1.82) from $5,597,000 ($1.65) the year before. President John Nelson of variety chain J J Newberry told stockholders first quarter sales were up 18% with a proportionate rise in earnings. For the full year he expects an 8% sales gain over last year's record $222,000,000, counts on 1959 earnings of at least $3.35 a share *v* $3.12 in 1958 and $2.58 in 1957.

Magic Margins. Best of all, many profits gains exceeded the rise in sales, as prominently demonstrated by duPont whose earnings from operations rushed up "perhaps 70%" on a 22% improvement in volume. On a more modest scale, General Electric boosted sales 1%, profits 7% to 60¢ a share.

The improved profit margins are

a potent reminder a good part of the earnings recovery is based not merely on "the general improvement in business" but on hard won gains in efficiency. Typical are the comments of chairman Elisha Gray II of Whirlpool Corp which turned an $11,000,000 gain in volume (to $99,000,000) into a first quarter profit of 80¢ a share *v* 29¢ the year before. Appliance maker Gray credited "stringent economy moves," which slashed expenses by $20,000,000 a year, "put us in much trimmer shape." Steadier production volume and firmer price structures also helped. Throughout industry the wider margins also provide a vital cushion against rising costs, should help promote price stability.

Lower Level. Naturally enough, not all first quarter results were up. For instance American Cyanamid's startup expenses at its Creslan synthetic fiber plant held first quarter net down to about the 58¢ level of last year's first quarter (a relatively strong period for Cyanamid which did not feel the real recession slump until the second quarter).

With increasing competition, druggist Schering Corp reported earnings down to 60¢ from 85¢ a year ago but president Francis Brown said the decline in the company's share of the steroid market has been checked; Schering first quarter sales were off only 3% ("less than we expected") and he was more optimistic about the future.

President William Chisholm announced Oxford Paper's quarterly earnings were off but this was "due entirely to expenses with activation of the North Star Coater, marketing of new lines of papers and our new carbonless paper. Had it not been for these non-recurring expenses, earnings would have been up 15%." He further cheered stockholders by promising "with increasing experience with the new equipment, earnings for the year should be better than those of 1958."

In the face of general sharp steel recovery, Lukens Steel netted only $1.06 as against $1.54 but president Charles Lukens Huston promised the "second quarter should be better." With excess industry capacity still a near-term aluminum problem Alcoa's first quarter net dipped to 49¢ from 53¢. But according to chairman Irving Wilson "it can be reasonably expected the subsequent quarters will see some improvement."

Several large aircraft makers like Boeing and Douglas have been faced with lower earnings due to considerable extent to heavy development and startup expenses on their commercial jets (IR, April 1). Last week United Aircraft chairman H Mansfield Horner forecast lower 1959 profits because of large research & development expenses. By sharp contrast, North American Aviation upped earnings in the March quarter to 90¢ from 80¢; thus it offset a slight decline in the December period and pushed profits for the first half of the September fiscal year to $1.63, two pennies better than the year before.

On the down side, Struthers Wells (industrial processing equipment) lost $154,000 as against a $171,000 profit a year ago. Machine tool

maker Kearney & Trecker also incurred a first quarter deficit v an $80,000 profit last year.

Some companies with deficits in the 1958 quarter continued in the red this year but even here there sometimes was a brighter side. Thus president George Alpert told the New Haven holders their railroad's deficit was "substantially less" than the $3,600,000 loss the year before.

Budget Toppers. And the overall earnings pattern was unquestionably up. Total corporate profits before taxes had dropped from an annual rate of $46.7 billion in the last quarter of 1956 to only $31.7 billion in the first three months of 1958, then shot back up with surprising vigor to $44 billion in the final 1958 period. Then in the first quarter of 1959 the upsurge carried to an estimated $48-to-50 billion rate, a figure previously approached only during the $48.6 billion fourth quarter of 1955—and early 1951 when Korean inflation threw in a $9 billion inventory profit.

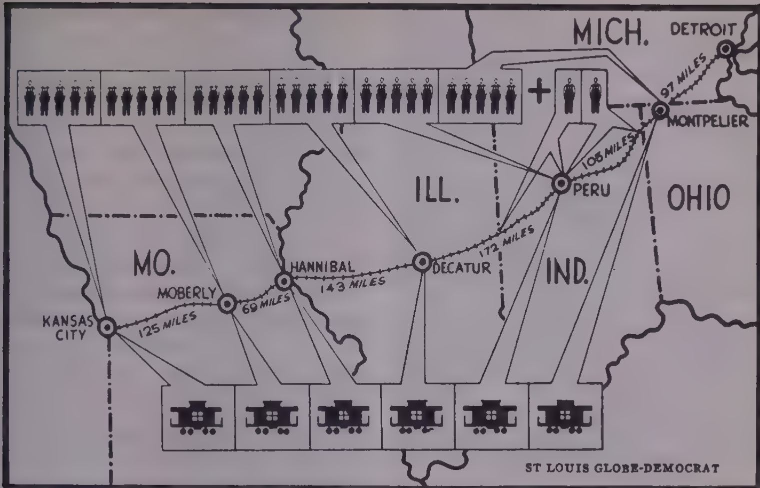
A telling sign of the unexpected profits strength: when the Federal budget was submitted in January even the optimists were ready to concede the $48 billion estimate for this year's corporate profits was more a pious hope set up to provide a budget-balancing tax forecast than a realistic expectation. Yet already it appears substantially too low.

Second quarter profits should show a further rise and full-year profits are now placed at $50-to-55 billion, an unquestioned record. It compares with 1958's $36.4 billion, $43.4 billion in 1957 and the previous high of $45.5 billion in 1956. In 1929 the pre-tax profits were only $9.6 billion.

Higher Base. Full year-to-year gains will no doubt be lower than the upswing to date—if only because the second half of 1958 was quite strong, so comparisons will start from a much higher base. Furthermore the third quarter will almost inevitably bring a letdown for many industries — either because a steel strike (and perhaps other labor disturbances) cuts into production or else because a peaceful steel settlement would probably be met by a lag in orders since precautionary buying "borrowed" a good deal of activity from normal third quarter operations.

Another problem is the relatively high level of unemployment with nearly one out of every 17 workers still looking for a job at last count. Aside from social considerations, this could prove an economic drag and also encourage efforts at political solutions — which usually tend to promote inflation.

However while efficiency and productivity increases (the very factors which brought badly needed support to profit margins) have limited job openings, the expected further increase in business activity should bring some added employment gains. And with most key elements in the economy—Gross National Product, industrial production, consumer income, etc—all at new highs, corporate profits should also continue at lofty levels — an expectation the stock market has already been busily "discounting" for months.



Harder Stand on Railroad Featherbeds

Railroads Launch Attack On Featherbedding, Say It Costs $500,000,000

FROM Kansas City to Detroit is 711 miles along the Wabash Railroad track. A Wabash freight rolls this distance in 30 hours. In most businesses this would seem a job for four eight-hour shifts. But under railroad working rules the train must stop five times en route to pick up new crews. In Indiana two extra brakemen step aboard as required by Hoosier state law. Thus the one-way trip requires six five-men crews plus the extra brakemen, 32 employes in all (see chart).

New York Central's *Twentieth Century* diesels cover the 908 miles from New York to Chicago in 16 hours or so. But in wages paid the 16 hours become nine basic days pay.

More costly still is the payroll for a Chicago, Burlington & Quincy train which speeds the 1,034 miles from Chicago to Denver in 16½ hours. The railroad uses eight different crews and basic pay tops ten days.

These are just three examples of "featherbedding"—which means pay for work not done or not needed. Rail executives have complained for decades about such practices which they claim cost half a billion dollars a year. In 1958 all Class I roads earned $602,000,000.

Long hesitant to try to flatten featherbeds, the railroads have been contractually unable to do so since 1956. The three-year wage contract agreement signed by most Class I railroads and the five railroad operating brotherhoods included a moratorium on any changes in operating rules until this November 1. But fired by recession woes, the

AAR's Dan Loomis

American Association of Railroads is out to win changes in the "wasteful and burdensome work rules" when the moratorium expires. The railroads are hopeful this year because negotiations will be carried on at a time when many of their problems (financial difficulties, competition from less-regulated rivals and unprofitable passenger service) are better recognized than ever before.

AAR president Daniel Loomis opened the attack just before Lincoln's Birthday with a speech to the National Association of Shippers Advisory Boards (composed of leading rail customers) in St Louis. He trained his guns on the "mileage-day pay system," the "jurisdictional walls" and the "senseless requirements for useless crewmen on trains and for firemen who tend no fires and extra brakemen who handle no brakes."

Iron Hitching Post. Added Dar Loomis: "Since the rules were drawn up, railroading has changec as all America has changed. But the old rules have not. They remain as inflexible as a rock and the modernized iron horse remains tied tc a 1919 hitching post."

The rules were standardized ir 1917-20 after the US had operatec the rails in War I. The mileage rule calls for a day's pay for 100 miles on a freight or 150 miles on a passenger train. The jurisdictiona walls severely limit the type of work railroad employes can perform. A road crew which does a little work in the yard can claim a day's pay for both jobs. In an unusual case a regular yard crew also claimed a day's pay because they were not called to do the work in the first place.

Railroader Loomis suggested the brotherhoods join with management in "seeking the appointment of a Presidential commission to study the impact of our present rules on the public welfare." The union leaders accepted his invitation for a joint meeting. One session was held early this month and more are scheduled.

Grand chief engineer Guy I Brown of the Brotherhood of Locomotive Engineers comments: "We suggested the investigation cover not only what management calls featherbedding by employes, but featherbedding of the official family of the railroad and the financial condition of the railroads." He added: "There is one railroad that has 33 trainmasters for about 50 miles of track. There are more rail-

road officials in the US now than there were 30 years ago, though there are now 1,000,000 fewer employes" (rail employment is now 810,000).

Union leader Brown agrees "an investigation is long past due." As the rail labor chief most outspokenly in favor of modernization, he said: "I think it is time for railroad managements as well as labor to face up to their responsibilities and bring conditions up to 1959."

He believes labor and management are not "solely responsible" for the present rules. "The ICC law was adopted before 1900 and other laws have been passed since. The Government and Congress have a responsibility for keeping the laws revised and up to date." Like rail executives, not all labor leaders agree on the track to take. William Parker Kennedy, boss of the Railroad Trainmen, said: "This is a matter for railroad men only—there is no reason to get politicians into it."

William J Quinn, president of the Milwaukee Road, puts the problem on a broad basis: "Besides lost dollars is the loss to the nation in wasted manpower and resources."

Two-Hour Day. Whoever is responsible, Dan Loomis notes the way the mileage-day pay system works out "on some runs where train speeds exceed 75 mph, a basic day's wage is earned in less than two hours." The average passenger engineer earns a basic day's pay in three hours and a freight engineer in four hours and five minutes according to the AAR chief. He adds: "As railroads step up speeds and streamline service, these restrict-the-work rules take off virtually every dollar of benefit that results."

Though engineers earn a day's pay in few hours they do not earn big salaries—at least not by today's standards. Usually they are limited to 150 miles or less. Prexy Loomis specifies: "It is a practice of the operating brotherhoods to limit the mileage a member employe can run in road service in a month. An employe can frequently receive his maximum allowed monthly earnings within 15 working days or less."

Grand chief engineer Brown counters his men get "no night or holiday differential" and when an employe is away from home overnight "no provision is made for his expense." He continues: "When the carriers campaign against featherbedding, make-work rules and penalty payments, they don't mention how seldom these penalty clauses need be invoked or tell how they came into being because of a history of management abuses."

Fire Alarm. As for excess workers, AAR prexy Loomis contends: "Hoary-headed coalburner rules still require an inflated number of men on diesel trains and self-propelled passenger cars and work equipment. These surplus men may have been truly needed long ago—but no more." Nowadays three men (an engineer, fireman and brakeman) still ride in the diesel cab. The unions argue the fireman is needed as "an extra pair of eyes" for safety.

The railroads also find their troubles heightened because some

governments force them to increase crews. In 16 states "full crew" laws require what the carriers consider unneeded men while seven states have commissions which regulate the size of train crews. *Fortune* magazine says: "The same freight train that carries two brakemen in Minnesota needs three in North Dakota, only two in Montana and Idaho but three again when it reaches Washington." A clause to eliminate New York's "full crew" law was included in the railroad tax relief bill which went before the state legislature this year, but was cut out before the bill was passed. However the legislature has called for a report next year on the full crew law which requires an engineer, fireman and a brakeman regardless of the length of the train.

'Dead Man' Functions. US railroads would like to follow the ties of the Canadian Pacific which over a year ago won government approval to gradually eliminate firemen on diesels. A Royal Commission concluded the firemen's functions "have either totally disappeared or are a mere duplication of what is discharged by others."

Dan Loomis also points out: "France, which is widely noted for the excellence of her rail service, uses only an engineer on all locomotives, except those not equipped with 'dead man' controls." The AAR head says the cost of unneeded firemen in the US comes to $200,000,000 while excess conductors, baggagemen, brakemen and flagmen "bleed off another $90,000,000."

The railroads feel featherbedding weakens their competitive position and eventually means competitors carry more passengers and freight. "A half-million rail jobs have been lost in the last dozen years," says Dan Loomis. "Unless we solve our internal & external problems, thousands more will go down the drain."

One example of job loss through featherbedding is cited by Minneapolis & St Louis Railroad vice president James R Sullivan. The line ran a small local passenger train on a 200-mile, seven-hour trip from Albert Lea, Minn to Albia, Iowa. The two crews in each direction required by the working rules "artificially raised the operating costs so an annual loss of about $29,000 was sustained * * * A single crew in each direction could easily have handled these trains." The line calculated with a single crew for each one-way trip "the train would break even." Shrugged vp Sullivan: "This was pointed out to the labor organization but to no avail." With the approval of the Iowa Commerce Commission the M & St L discontinued the train.

Although both sides want some changes in railroad operations, a big fight may be shaping up on some specific featherbedding rules. "The working rules need to be revised," states engineer Brown. "I'm not talking about revising the rules to the detriment of the employes only. This must be a two-way street." The basic philosophy at least is shared by Dan Loomis who warns: "Many traditional practices may have to go by the board. A lot of sacred cows may have to be put out to pasture."

Black & Decker Does-It-Itself

Maryland Toolmaker Looks To Busy Future from Home Hobbyists and New Lines

TO MANY a hardworking do-it-yourselfer the name Black &)ecker is as familiar as an egg-)eater is to his wife. For the Black ɩ Decker Manufacturing Company s the world's No 1 maker of portable lectric tools—drills, saws, sanders, crewdrivers, etc. It sells not only o the newly vast home market but ɩlso to carpenters, electricians, ılumbers and maintenance workers s well as to a wide variety of in-lustries (from autos to TV to out-ıoard motors) where fabrication, inishing and mass assembly must be nechanized.

Founded a little under 50 years go with only a handful of capital ıy salesman S Duncan Black and ngineer Alonzo G Decker Sr, Black Decker has grown from a small, ingle-unit operation at Towson, Md o a $44,000,000-assets worldwide rganization with five manufactur-ng plants (two in the US, one each n Canada, Britain, Australia) and 8 sales & service branches located n every continent. It accounts for nore than one-fourth of the total ortable electric tool industry.

The two top officers are still a Black nd a Decker. Current chairman and resident is co-founder Duncan's rother Robert D Black, a jolly "4.4 imes grandfather" who has been vith the company since 1917. He ook over the top job in 1956 on the leath of Alonzo Decker Sr while lonzo Jr stepped into Bob's former slot as executive vice president. All the other officers are "non-family," as are the nine outside directors on the eleven-man board. Total stock held by officers and directors comes to less than 10%. The rest of the 1,076,000 Big Board-listed shares are held by 6,500 public stockholders.

Postwar Surge. Black & Decker's biggest growth has come postwar with sales rising every year but four and net income increasing in all but three years. Since 1946 sales more than tripled to the record $52,400,000 posted in the year ended September 1957. Similarly net income climbed from $1,830,000 or $1.86 a share to the peak $5,550,000 or $5.40 a share (adjusted for a 2-for-1 split in 1955 and six stock dividends). In fiscal 1958 however this proud record was temporarily stalled. Roughed by recession cutbacks in the construction, auto and other industries, company sales for the year ended last September lagged 17% to $43,530,000. Profits fell more than twice that rate to $3,260,000 or $3.16 a share.

Bob Black explains: "In our industry the profits are all in the top figures, like the cream on a milk bottle. We have a large number of fixed costs which have to be absorbed no matter what. So as sales fall off, profits fall even further. But the same is true when we have a sales gain. There is a greater absorption of the fixed costs and our profits go up disproportionately." This can certainly be viewed in B&D's six-month picture. While final

B&D chief Bob Black

figures are not yet completely tabulated, Bob Black estimates "sales were 11% ahead of last year while profits were 30% greater."

Actually the six months finished "at better than we expected." For the full 1959 fiscal year "we had forecast a 10% sales increase and a 25% profit rise. We had expected to be behind this rate in the first half which was to be the tough one. Now I don't possibly see how we can stub our toe on the last half and it may be considerably better."

One reason for Black & Decker's heady postwar growth has been the popularity of its "Hardware" line. Up through War II, B&D output was purely industrial. A few lighter tools were made for use by carpenters and other craftsmen but there was no attempt to cultivate a home market. Then in 1946 the company introduced its lines for the home owner and hobbyist. With the headlong rush to do-it-yourself, the products have been continually expanded to include many new building tools and attachments—some as far outside the basement domain as lawn and landscape instruments. Now known as the "Hardware" line, these light power tools account for roughly 40% of B&D sales.

Plant Progress. Black & Decker growth has also been spurred by a hefty seven year $15,000,000 expansion program. Company headquarters are still at Towson, a onetime rural outpost and now a thriving suburb ten miles from the heart of downtown Baltimore. Here Black & Decker also maintains a large part of its engineering staff, some manufacturing facilities and various administrative functions.

The bulk of its domestic manufacturing is now carried on at a magnificent $9,000,000 plant located 20 miles northwest through the rich rolling Maryland horse & cattle country at Hampstead. Started in 1951 (the third unit was completed three years ago), the Hampstead plant now totals 480,000 square feet but can be expanded to 1,000,000 as needed. The largest electric tool plant in the world with its 1,200 employes, Hampstead is fully equipped to turn out over 100 different kinds of electric tools. Transportation and shipping is facilitated through a Western Maryland Railway siding plus 20 truck docks located within the plant itself. A Post Office substation takes care of mail and parcel post shipments while a Railway Express in-plant office handles expedited shipments.

While Hampstead was by far the biggest slice of the B&D expansion pie, the recipe also puts increased emphasis on foreign expansion. The company's first foreign operation—a sales, service and warehousing subsidiary in Canada—dates back to 1922 and was followed by a score of similar units. But up to 1956, B&D had only one foreign manufacturing operation: the British subsidiary which started production in 1926, built and moved into its own plant in 1940. Two years ago it completed construction of a plant near Melbourne, Australia and a year later purchased a plant at Brockville, Ontario to begin manufacturing in Canada.

These manufacturing operations as well as the extensive foreign sales offices—23 all told—have enabled Black & Decker to compete very nicely in foreign markets which now bring in "about 33% of our sales and at least as much in profits."

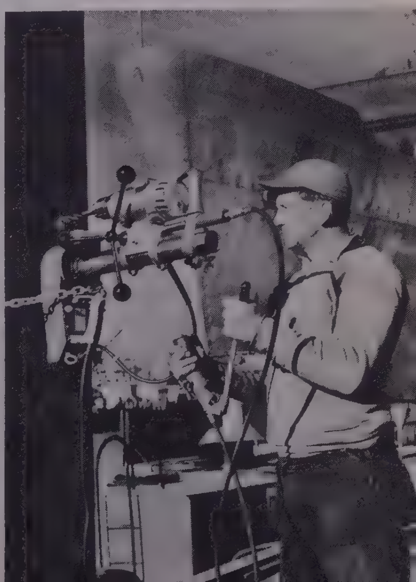
In the US, of course, manufacturing costs run somewhat higher but "there is not the degree of low-priced import competition in electric tools as in other lines." Bob Black explains: "Foreign manufacturers have not followed the same promotional techniques in domestic markets as prevail among US makers. Imports just don't have the same appeal in specialized electric tools as they do for example in fabrics. And tools are not like the small foreign cars where the Europeans had something the American carmakers didn't offer."

Secondly Bob Black maintains: "Any electrical or mechanical product is no better than the service behind it. Importers of foreign tools have not matched the extensive and conventional service and parts availability offered by domestic brands." Finally "the choice between imported and made-in-US electric tools is more an attitude of mind than anything else. It is basic with Americans that in durable goods they like to buy a domestic label."

Home Markets. However there is keen competition among domestic brands. There are 12-to-15 well recognized portable electric tool manufacturers among "a total of some 61 companies which make at least a few types of tools." And even though "our nearest competitor is less than half our size we still get a great deal of aggressive competition from makers of all types and in all price ranges."

Competition is perhaps keenest on

Shipyard use for magnetic drill press



the consumer level where there are lots of inexpensive tools to woo the small craftsman. While Black & Decker has always specialized in the superior quality and consequently somewhat higher priced items, it has often lost out among buyers who look for a less expensive tool for only incidental use. To meet this market Black & Decker this Spring brings out four additions to its Hardware line—new half-inch and quarter-inch utility drills, a new utility jig saw and a new utility finishing sander. Priced $5-to-10 below their deluxe counterparts, the new tools feature the same precision-cut B&D gears and company-wound motors "which are the critical parts of any tool" but contain less expensive bearings and other parts, plus various production economies. Example: instead of a high buff finish, a cheaper spray paint finish.

Bob Black stresses: "They are still the same Black & Decker high quality but these few economies will enable us to sell them cheaper and compete in the lower priced market. They are not in any way a new line in themselves but rather a supplement to our current Hardware line. We hope to convince the dealer that now he need stock only one line of electric tools—Black & Decker—which will cover all except the really cheap tool market. We call it the L-O-N-G line concept."

Bob Black expects "a minimum of competition with the company's own deluxe tools." He goes on: "We will get a larger share of the total market by offering a respected brand in the lower priced brackets and by giving the consumer a choice — under the B&D label — of price and performance to suit his exact needs." He declines to give any figure on how much more business he expects ("Our competitors would love to know that") but asserts "they will bring a substantial increase to our Hardware line."

In its industrial line, Black & Decker also meets heavy competition. One important source is air tools which vie for much of the same market as electric tools. Although they require a high-pressure compressed air system, many industries prefer air tools because of their lighter weight and often easier handling. They are also popular for use in foundries, metal working and other assembly areas where operating conditions make electricity less desirable.

Air Debut. Up to now this market has been covered mostly by such companies as Ingersoll Rand, Gardner-Denver and Chicago Pneumatic Tool. But two weeks ago Black & Decker took its first step into the air tool market with the purchase of Master Pneumatic Tool Company of Bedford, Ohio. Master makes pneumatic drills, screwdrivers, nut runners, wrenches, hammers, air hoists, etc. With total annual sales of $2½-to-3,000,000, Master is only a small factor in the air tool field but Bob Black maintains: "We were not out to buy volume. Master has a completely developed line acceptable to our business and a good nationwide sales force. It has the possibility of considerable expansion and we plan to build on that as fast as we can."

The Master purchase for 37,000 ommon shares is one of Black &)ecker's few equity acquisitions. 3ob Black assures "it represents no lilution of our stock." Since "we vill get results for only five months f our current fiscal year we don't xpect it to do any more than hold ts own this year. But we will start etting benefits in fiscal 1960."

As a matter of fact Black & Deck- r's whole stock policy has been tra- itionally conservative. Bob Black roudly asserts: "We managed to do ur entire expansion program with- ut any equity financing at all.")uring the six-year period 1951-57 ash dividends were necessarily kept ow, supplemented by small stock ividends every year since 1952 plus ne 2-for-1 split in 1955.

However last August, "since no urther financing for major capital xpenditures is anticipated in the ear future" the directors decided to oost the quarterly cash pay from 5¢ to half a dollar, omit the stock ividend. The 1,076,000 shares have oubled in the past 16 months to each an alltime high of 67 and op the 1957 pre-recession peak of 4¾.

In its travels, the stock has attract- d quite a bit of buying on the part f growth stock funds, trust funds, anks and colleges. Bob Black notes an increased interest started about year and a half ago and has stead- y increased and expanded ever nce * * * Once one starts buying ne others get interested." So far the iggest holder is the MIT Growth tock Fund which just increased its nterest by 4,700 shares for a total of 20,000. Other holders include Maryland Casualty, National Investors Corp.

What with growth stock funds, acquisition and expansion, in the past few years Bob Black has had very little time for anything but B&D business. But he does admit to an occasional game of golf and "I love to go down to Florida and fish on vacations. We go inland into the shallow waters and the bayous which are just loaded with trout, ladyfish, mackerel and blues." The rest of the time, however, "I have no time for even the leisure hour tools I am trying to sell; I make 'em but I don't use 'em."

APPLIANCES
The Tappan Tale

IN A SLOW YEAR for most of the appliance industry, leading stove maker Tappan Company not only maintained its fine showing in 1958 but cooked up new records in sales and earnings. The slim but attractive annual report showed total volume rose 24% to $56,900,000 and profits climbed more than twice as fast to $2,355,000 or $5.63 a share from $1,473,000 or $3.51 in 1957. Now in its 25th year of uninterrupted quarterly dividends, Tappan supplemented its 35¢ quarterly rate with a generous $1.10 year-end extra for a total 1958 payout of $2.50 *v* $2 in 1957.

President William Richard Tappan (the 78-year-old business has been headed by a Tappan since 1918) explained in a phone interview from Mansfield, Ohio headquarters: "One of the primary reasons for the sales increase was the

success of the 'Fabulous 400' series." The '400' is an electric unit which combines the advantages of free-standing and built-in ranges (including a "high oven"), can be placed on a base cabinet or hung against the wall at any desired height (see picture).

"Dick" Tappan continued: "Although it was introduced rather late last year, the '400' represented about 15% of sales. The original, along with a smaller version just brought out, will yield a big portion of dollar volume in 1959." The youthful (44) executive added: "Sales of our standard stoves were also on the rise in 1958. The built-in varieties are doing particularly well. I guess just hard work accounted for the rest of the profits." Hard worker Tappan came to the company 21 years ago after Denison University and the Harvard Business School, succeeded uncle Alan Prescott Tappan (now chairman) as president early last year.

A financial stranger to most investors because the supply of stock is extremely limited, Tappan is well-known to most US homemakers as a quality producer of kitchen ranges. It turns out a full line for both electric and all types of gas—natural, manufactured or bottled.

In 1955 it extended its range with the development of an electronic unit The revolutionary stove's micro waves will cook an egg in 20 sec onds, bake a potato in four minute or cook a 5-pound roast in half a hour—all without heat anywhere ex cept inside the food itself. Price ha been the main obstacle but Tappa last year managed to reduce the re tail tab to about $900 from $1200 However Dick Tappan finds "it i too early to predict" the response.

Dropped Stove. Tappan move toward more diversification in 1957 emphasized by shortening its cor porate name from "Tappan Stov Company." During that year Lo Angeles subsidiary O'Keefe & Mer ritt added a washer-dryer to it ranges. At the same time Tappan ac quired Champion Molded Plastic of Bryan, Ohio which does a $2, 500,000 a year business in refriger ator drawers and crispers, applianc and toy parts and sundry househol products like plastic pads and bas kets. Enlargement is slated for thi division though "no definite pla has yet been formed."

Basically however, Tappan re mains a stove specialist. Dick Tap pan endorses this role: "We sub scribe pretty much to the comment Fred Maytag has made in the are of specialized appliance manufactur [IR, Dec 10, 1958]. And I think th

Investor's Reader Staff

Phebe Alexander, *Editor of Issue*

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Production

Carol Trick, *Artist*
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Annette Miller

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LA RUE APPLEGATE, *Editor*

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Arch Catapano, *New York*
John Hastings, *New York*
Ingeborg Schmidt, *Baltimore*
Albert Warfield, *Baltimore*

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iews have been borne out in the recession last year. Look at the record of Maytag, Hoover, Zenith, Motorola and other product specialists—you'll find they did relatively well."

Executive Tappan "thinks 1959 will show an increase in sales and earnings." To take care of larger demand a $3,700,000 expansion program is under way at the Mansfield and Murray, Ky plants. The $24,000,000-assets firm is not contemplating any new financing for these and other near-term projects since "we can do it on existing capital and short-term borrowings."

Tappan started this year with $11,000,000 in working capital and no bank loans, funded debt or preferred stock. The entire capital structure consists of a simple 419,000 common shares of which 30-to-35% are closely held. Biggest single holder: the employe profit-sharing trust.

Consequently the market for the stock is extremely thin and subject to sharp fluctuations. With the bright operating results of the past year, quotations in the over-the-counter market have pushed up to last week's high of 72 and make some observers consider Tappan a logical candidate for a stock split. The volatile stock has soared 50% since late 1958, quadrupled since the 1957 low.

THE FOURTH INGREDIENT

If you want to live on Easy Street, we suggest that you move to Saratoga, New York, where there actually is a street by that name. (It crosses Whiskey Road, believe it or not!)

But don't expect that the purchase of stocks or bonds will automatically land you on Easy Street. Successful investing isn't that simple. It takes (1) money—not necessarily a lot, but some; (2) the courage to take calculated risks—because risk is an inevitable part of investing, as of life itself· (3) a measure of luck—because nobody can predict with certainty the course of any investment; and (4) the ability to choose your investments as wisely as possible.

Candidly, the only ingredient of success that we are prepared to supply is the fourth. You have to have the rest.

But that doesn't mean the fourth isn't important. Quite the contrary. Careful selection of securities, based on solid facts, is absolutely vital to an investor's success. But that selection isn't as difficult as it sounds. After all, some 350,000 people buy and sell securities through Merrill Lynch every month, and they're not all financial wizards by any means. We've helped many of them choose stocks and bonds to suit their aims and their pocketbooks, and we'll be glad to do the same for you.

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